



## **NEWCASTLE MUNICIPALITY**

Annual Financial Statements  
for the year ended June 30, 2015

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## General Information

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### Mayor

Executive Committee

Cllr AF Rehman - Mayor  
Cllr RN Mdluli - Deputy Mayor  
Cllr MF Zikhali - Speaker  
Cllr NP Kunene - Exco Member  
Cllr EJC Cronje - Exco Member  
Cllr SBM Lukhele - Exco Member  
Cllr NS Mathews - Exco Member  
Cllr RB Ndima - Exco Member  
Cllr JA Voster - Exco Member  
Cllr M Shunmugam - Exco Member  
Cllr VV Bam  
Cllr MM Bhekiswayo  
Cllr MV Buhali  
Cllr DRF Buthelezi  
Cllr NM Chetty  
Cllr JME Damons  
Cllr TJ De Jager  
Cllr CL Dube  
Cllr DX Dube  
Cllr JK Gabuza  
Cllr FP Gama  
Cllr TS Hlabisa  
Cllr MME Hlatshwayo  
Cllr SB Hlatshwayo  
Cllr CB Kubheka  
Cllr S Kubheka  
Cllr C Liu  
Cllr HS Madonsela  
Cllr HT Malindi  
Cllr FM Mamba  
Cllr AMM Mashinini  
Cllr JS Mbatha  
Cllr ZJ Mbatha  
Cllr MN Mbokazi  
Cllr MO Mdhlalose  
Cllr AP Meiring  
Cllr CN Mkhize  
Cllr HN Mkhwanazi  
Cllr MG Mlangeni  
Cllr RM Moleleko  
Cllr MS Mlangeni  
Cllr NA Msibi  
Cllr T Mzoneli  
Cllr SG Ndlovu  
Cllr ME Ngcobo  
Cllr NJ Ngobese  
Cllr D Ngwenya  
Cllr CL Nhlapho  
Cllr DJZ Nkosi

# **Newcastle Municipality**

Annual Financial Statements for the year ended June 30, 2015

## **General Information**

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Cllr NT Ntshangase

Cllr TM Nzube

Cllr DO Shabalala

Cllr DM Sibilwane

Cllr LG Thwala

Cllr SM Thwala

Cllr DE Tshabalala

Cllr SJ Zulu

Cllr TM Zulu

Cllr ME Zwane

Cllr NA Zwane

**Grading of local authority** 4

**Accounting Officer** Mr BE Mswane (Acting)

**Chief Finance Officer (CFO)** Mr SM Nkosi (Acting)

**Registered office**  
37 Murchison Street  
Newcastle  
2940

**Business address**  
37 Murchison Street  
Newcastle  
2940

**Postal address**  
Private Bag X 6621  
Newcastle  
2940

**Bankers** First National Bank

**Auditors** Auditor General South Africa

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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**Abbreviations**

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamation Banks of Southern Africa

# **Newcastle Municipality**

Annual Financial Statements for the year ended June 30, 2015

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and is given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or had access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in the financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act 1998 (Act No 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

As required by Section 45 of the Municipal Systems Act and Section 121(4)(a) and (b) of the Municipal Finance Management act, the Annual financial Statements were submitted to the Auditor-General South Africa (AGSA) on 31 August 2015.

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**Mr BE Mswane  
Accounting Officer**

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Financial Position as at June 30, 2015

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	10,896,236	12,439,141
Other financial assets	9	9,836	3,015,328
Receivables from exchange transactions	10	23,097,757	24,012,946
Receivables from non-exchange transactions	11	10,134,929	8,580,963
VAT receivable	12	27,751,286	34,801,284
Prepayments	13	3,909,992	-
Consumer debtors	14	749,006,588	522,124,308
Cash and cash equivalents	15	340,812,924	327,907,203
		<b>1,165,619,548</b>	<b>932,881,173</b>
<b>Non-Current Assets</b>			
Investment property	3	207,527,190	281,734,000
Property, plant and equipment	4	3,852,247,900	3,818,751,750
Intangible assets	5	1,812,516	1,348,001
Heritage assets	6	2,964,899	2,904,899
Investments in associates	7	413,062,905	131,855,333
		<b>4,477,615,410</b>	<b>4,236,593,983</b>
<b>Total Assets</b>		<b>5,643,234,958</b>	<b>5,169,475,156</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Financial liabilities	18	27,326,675	20,979,603
Finance lease obligation	16	386,033	509,592
Payables from exchange transactions	21	272,264,248	305,248,546
Consumer deposits	22	11,048,084	9,970,005
Unspent conditional grants and receipts	17	69,609,604	43,518,816
Defined Benefit Plan	19	4,691,613	4,425,946
		<b>385,326,257</b>	<b>384,652,508</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	18	471,912,802	221,003,266
Finance lease obligation	16	-	231,853
Defined Benefit Plan	19	107,212,753	93,802,319
Provision for Rehabilitation of Landfill site	20	27,200,543	25,860,274
		<b>606,326,098</b>	<b>340,897,712</b>
<b>Total Liabilities</b>		<b>991,652,355</b>	<b>725,550,220</b>
<b>Net Assets</b>			
Reserves			
Housing Development Fund		22,413,837	27,802,096
Insurance reserve		7,471,767	7,095,715
Accumulated surplus		4,621,697,000	4,409,027,125
<b>Total Net Assets</b>		<b>4,651,582,604</b>	<b>4,443,924,936</b>

\* See Note 58 & 45

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
Service charges	23	833,255,041	796,082,769
Rental of facilities and equipment	25	6,325,224	4,639,974
Other income		7,007,167	3,838,031
Sundry sales		672,757	647,921
Fee income		7,024,930	6,050,224
Interest received	27	24,314,535	25,518,310
Property rates	24	209,012,676	175,478,677
Government grants & subsidies	26	420,438,604	434,932,499
Fines		6,229,724	9,022,484
Gain on Actuarial Valuations	19	-	23,189,640
Profit on sale of Assets		7,575,581	12,604,396
<b>Total revenue</b>		<b>1,521,856,239</b>	<b>1,492,004,925</b>
<b>Expenditure</b>			
Employee costs	29	(359,262,611)	(353,488,528)
Remuneration of councillors	30	(20,123,948)	(18,190,799)
Depreciation and amortisation	31	(302,387,317)	(252,321,047)
Impairment of assets	32	(3,471,820)	(10,469,528)
Finance costs	33	(33,541,596)	(11,325,408)
Debt impairment	34	50,390,243	11,177,793
Collection costs		(11,636,944)	(10,597,688)
Repairs and maintenance		(75,593,072)	(68,790,647)
Bulk purchases	35	(479,490,916)	(435,608,308)
Contracted services	36	(52,451,766)	(48,648,945)
General Expenses	37	(232,681,066)	(223,243,153)
Loss on Actuarial Valuations	19	(4,700,243)	-
<b>Total expenditure</b>		<b>(1,524,951,056)</b>	<b>(1,421,506,258)</b>
<b>Operating (deficit) surplus</b>			
Share of deficit in investment in associates	7	(3,094,817)	70,498,667
Fair value adjustments to investment property	3	(43,322,729)	(14,248,537)
Impairment/Gain on investment in associates	7	(71,954,810)	102,474,407
		324,530,301	(97,644,480)
		<b>209,252,762</b>	<b>(9,418,610)</b>
<b>Surplus for the year</b>		<b>206,157,945</b>	<b>61,080,057</b>

\* See Note 58 & 45

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
<b>Balance at July 1, 2013</b>	<b>26,548,794</b>	<b>6,804,366</b>	<b>33,353,160</b>	<b>2,883,039,476</b>	<b>2,916,392,636</b>
Changes in net assets					
Prior year correction - Accruals 2013/14	-	-	-	2,478,432	2,478,432
Reversal of impairment losses on Investment in associate	-	-	-	(22,966,966)	(22,966,966)
Prior year corrections - Reported in 2013/14	-	-	-	15,781,965	15,781,965
Prior year correction - Unspent Grants Refer to Note 45	-	-	-	1,429,628	1,429,628
Prior year correction - Assets Refer to Note 45	-	-	-	1,468,184,533	1,468,184,533
Net income (losses) recognised directly in net assets	-	-	-	1,464,907,592	1,464,907,592
Deficit for the year	-	-	-	61,080,057	61,080,057
Total recognised income and expenses for the year	-	-	-	1,525,987,649	1,525,987,649
Transfer to Housing Development Fund	1,253,302	-	1,253,302	-	1,253,302
Transfer to Self Insurance Reserve	-	291,349	291,349	-	291,349
Total changes	1,253,302	291,349	1,544,651	1,525,987,649	1,527,532,300
<b>Restated* Balance at July 1, 2014</b>	<b>27,802,096</b>	<b>7,095,715</b>	<b>34,897,811</b>	<b>4,409,027,125</b>	<b>4,443,924,936</b>
Surplus for the year	-	-	-	206,157,945	206,157,945
Transfer from housing development fund	(5,388,259)	-	(5,388,259)	5,388,259	-
Transfer to self insurance reserve	-	376,052	376,052	(376,052)	-
Movement in current year	-	-	-	1,499,723	1,499,723
Total changes	(5,388,259)	376,052	(5,012,207)	212,669,875	207,657,668
<b>Balance at June 30, 2015</b>	<b>22,413,837</b>	<b>7,471,767</b>	<b>29,885,604</b>	<b>4,621,697,000</b>	<b>4,651,582,604</b>

\* See Note 58 & 45

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		914,434,832	809,054,063
Grants		448,029,391	434,932,499
Interest received		24,314,535	17,184,549
		<u>1,386,778,758</u>	<u>1,261,171,111</u>
<b>Payments</b>			
Employee costs		(386,179,499)	(330,826,267)
Suppliers		(869,234,238)	(702,390,686)
Finance costs		(33,541,596)	(11,325,408)
		<u>(1,288,955,333)</u>	<u>(1,044,542,361)</u>
<b>Net cash flows from operating activities</b>	40	<b><u>97,823,425</u></b>	<b><u>216,628,750</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(341,121,418)	(991,129,741)
Proceeds from sale of property, plant and equipment	4	252,314	12,640,221
Purchase of other intangible assets	5	(889,796)	-
Purchases of Heritage Assets	6	(60,000)	-
Movement in Investment in Associates		-	664,186,194
<b>Net cash flows from investing activities</b>		<b><u>(341,818,900)</u></b>	<b><u>(314,303,326)</u></b>
<b>Cash flows from financing activities</b>			
Net movements in long term loans		257,256,608	171,122,274
Movement in provision for landfill rehabilitation costs		-	2,937,084
Movement on finance lease		(355,412)	543,444
Movements on defined benefit plan		-	(12,147,644)
Movement in Reserve		-	(88,736,908)
<b>Net cash flows from financing activities</b>		<b><u>256,901,196</u></b>	<b><u>73,718,250</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>12,905,721</u></b>	<b><u>(23,956,326)</u></b>
Cash and cash equivalents at the beginning of the year		327,907,203	351,863,529
<b>Cash and cash equivalents at the end of the year</b>	15	<b><u>340,812,924</u></b>	<b><u>327,907,203</u></b>

\* See Note 58 & 45

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	937,619,664	2,750,001	<b>940,369,665</b>	833,255,041	(107,114,624)	Appendix E
Rental of facilities and equipment	6,478,502	-	<b>6,478,502</b>	6,325,224	(153,278)	Appendix E
Profit on sale of Assets	-	-	-	7,575,581	<b>7,575,581</b>	Appendix E
Other income	21,276,579	366,103	<b>21,642,682</b>	7,007,167	(14,635,515)	Appendix E
Sundry sales	-	-	-	672,757	<b>672,757</b>	Appendix E
Fee income	-	-	-	7,024,930	<b>7,024,930</b>	Appendix E
Interest received	16,872,072	-	<b>16,872,072</b>	24,314,535	<b>7,442,463</b>	Appendix E
<b>Total revenue from exchange transactions</b>	<b>982,246,817</b>	<b>3,116,104</b>	<b>985,362,921</b>	<b>886,175,235</b>	<b>(99,187,686)</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	242,669,800	(24,724,120)	<b>217,945,680</b>	209,012,676	(8,933,004)	Appendix E
Government grants & subsidies	298,618,069	3,816,013	<b>302,434,082</b>	420,438,604	<b>118,004,522</b>	Appendix E
<b>Transfer revenue</b>						
Fines	2,827,207	-	<b>2,827,207</b>	6,229,724	<b>3,402,517</b>	Appendix E
<b>Total revenue from non-exchange transactions</b>	<b>544,115,076</b>	<b>(20,908,107)</b>	<b>523,206,969</b>	<b>635,681,004</b>	<b>112,474,035</b>	
<b>Total revenue</b>	<b>1,526,361,893</b>	<b>(17,792,003)</b>	<b>1,508,569,890</b>	<b>1,521,856,239</b>	<b>13,286,349</b>	
<b>Expenditure</b>						
Personnel	(399,662,967)	(11,974,425)	<b>(411,637,392)</b>	(359,262,611)	<b>52,374,781</b>	Appendix E
Remuneration of councillors	(18,120,877)	-	<b>(18,120,877)</b>	(20,123,948)	(2,003,071)	Appendix E
Depreciation and amortisation	(238,001,942)	-	<b>(238,001,942)</b>	(302,387,317)	(64,385,375)	Appendix E
Impairment loss/ Reversal of impairments	-	-	-	(3,471,820)	(3,471,820)	Appendix E
Finance costs	(22,158,395)	-	<b>(22,158,395)</b>	(33,541,596)	(11,383,201)	Appendix E
Debt impairment	(296,728,014)	197,818,676	<b>(98,909,338)</b>	50,390,243	<b>149,299,581</b>	Appendix E
Collection costs	(13,158,155)	-	<b>(13,158,155)</b>	(11,636,944)	<b>1,521,211</b>	Appendix E
Repairs and maintenance	(95,257,827)	7,785,770	<b>(87,472,057)</b>	(75,593,072)	<b>11,878,985</b>	Appendix E
Bulk purchases	(432,240,000)	17,240,000	<b>(415,000,000)</b>	(479,490,916)	(64,490,916)	Appendix E
Contracted Services	(120,977,430)	51,126,798	<b>(69,850,632)</b>	(52,451,766)	<b>17,398,866</b>	Appendix E
General Expenses	(222,163,082)	(109,759,153)	<b>(331,922,235)</b>	(237,381,309)	<b>94,540,926</b>	Appendix E
<b>Total expenditure</b>	<b>(1,858,468,689)</b>	<b>152,237,666</b>	<b>(1,706,231,023)</b>	<b>(1,524,951,056)</b>	<b>181,279,967</b>	
<b>Operating deficit</b>	<b>(332,106,796)</b>	<b>134,445,663</b>	<b>(197,661,133)</b>	<b>(3,094,817)</b>	<b>194,566,316</b>	
Share of Surplus/Deficit of Investment in Associates	-	-	-	(43,322,729)	(43,322,729)	Appendix E
Fair value adjustment to investment property	-	-	-	(71,954,810)	(71,954,810)	Appendix E
Gain/Impairment on Investment in Associates	-	-	-	324,530,301	<b>324,530,301</b>	Appendix E
	-	-	-	<b>209,252,762</b>	<b>209,252,762</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Surplus before taxation</b>	<b>(332,106,796)</b>	<b>134,445,663</b>	<b>(197,661,133)</b>	<b>206,157,945</b>	<b>403,819,078</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(332,106,796)</b>	<b>134,445,663</b>	<b>(197,661,133)</b>	<b>206,157,945</b>	<b>403,819,078</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	-	-	-	10,896,236	<b>10,896,236</b>	Appendix E
Other financial assets	-	-	-	9,836	<b>9,836</b>	Appendix E
Receivables from exchange transactions	22,158,000	-	<b>22,158,000</b>	23,097,757	<b>939,757</b>	Appendix E
Receivables from non-exchange transactions	-	-	-	10,134,925	<b>10,134,925</b>	Appendix E
VAT receivable	-	-	-	27,751,286	<b>27,751,286</b>	Appendix E
Prepayments	-	-	-	3,909,992	<b>3,909,992</b>	Appendix E
Consumer debtors	474,895,577	618,176,748	<b>1,093,072,325</b>	749,006,590	(344,065,735)	Appendix E
Cash and cash equivalents	278,841,319	(45,747,000)	<b>233,094,319</b>	340,812,924	<b>107,718,605</b>	Appendix E
	<b>775,894,896</b>	<b>572,429,748</b>	<b>1,348,324,644</b>	<b>1,165,619,546</b>	(182,705,098)	
<b>Non-Current Assets</b>						
Investment property	171,249,000	-	<b>171,249,000</b>	207,527,190	<b>36,278,190</b>	Appendix E
Property, plant and equipment	2,393,683,000	448,562,723	<b>2,842,245,723</b>	3,852,247,900	<b>1,010,002,177</b>	Appendix E
Intangible assets	913,000	-	<b>913,000</b>	1,812,516	<b>899,516</b>	Appendix E
Heritage assets	-	-	-	2,964,899	<b>2,964,899</b>	Appendix E
Investments in associates	1,110,223,753	-	<b>1,110,223,753</b>	413,062,905	(697,160,848)	Appendix E
	<b>3,676,068,753</b>	<b>448,562,723</b>	<b>4,124,631,476</b>	<b>4,477,615,410</b>	<b>352,983,934</b>	
<b>Total Assets</b>	<b>4,451,963,649</b>	<b>1,020,992,471</b>	<b>5,472,956,120</b>	<b>5,643,234,956</b>	<b>170,278,836</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Financial liabilities	22,158,000	-	<b>22,158,000</b>	27,326,675	<b>5,168,675</b>	Appendix E
Finance lease obligation	-	-	-	386,033	<b>386,033</b>	Appendix E
Payables from exchange transactions	103,000,000	-	<b>103,000,000</b>	272,264,248	<b>169,264,248</b>	Appendix E
Consumer deposits	9,997,181	-	<b>9,997,181</b>	11,048,084	<b>1,050,903</b>	Appendix E
Unspent conditional grants and receipts	-	-	-	69,609,604	<b>69,609,604</b>	Appendix E
Defined Benefit Plan	3,437,863	-	<b>3,437,863</b>	4,691,613	<b>1,253,750</b>	Appendix E
	<b>138,593,044</b>	-	<b>138,593,044</b>	<b>385,326,257</b>	<b>246,733,213</b>	
<b>Non-Current Liabilities</b>						
Financial liabilities	513,000,000	(22,158,000)	<b>490,842,000</b>	471,912,802	(18,929,198)	Appendix E
Defined Benefit Plan	129,861,236	-	<b>129,861,236</b>	107,212,753	(22,648,483)	Appendix E
Provision for Rehabilitation of Landfill site	-	-	-	27,200,543	<b>27,200,543</b>	Appendix E
	<b>642,861,236</b>	(22,158,000)	<b>620,703,236</b>	<b>606,326,098</b>	(14,377,138)	
<b>Total Liabilities</b>	<b>781,454,280</b>	(22,158,000)	<b>759,296,280</b>	<b>991,652,355</b>	<b>232,356,075</b>	
<b>Net Assets</b>	<b>3,670,509,369</b>	<b>1,043,150,471</b>	<b>4,713,659,840</b>	<b>4,651,582,601</b>	(62,077,239)	

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Housing Development Fund	26,548,794	-	<b>26,548,794</b>	22,413,837	<b>(4,134,957)</b>	Appendix E
Insurance reserve	6,804,366	-	<b>6,804,366</b>	7,471,768	<b>667,402</b>	Appendix E
Accumulated surplus	3,637,156,209	1,043,150,471	<b>4,680,306,680</b>	4,621,696,996	<b>(58,609,684)</b>	Appendix E
<b>Total Net Assets</b>	<b>3,670,509,369</b>	<b>1,043,150,471</b>	<b>4,713,659,840</b>	<b>4,651,582,601</b>	<b>(62,077,239)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods	897,982,299	(447,147)	<b>897,535,152</b>	878,602,557	<b>(18,932,595)</b>	
Grants	446,532,069	9,559,727	<b>456,091,796</b>	448,029,391	<b>(8,062,405)</b>	
Interest received	16,872,072	-	<b>16,872,072</b>	24,314,535	<b>7,442,463</b>	
	<b>1,361,386,440</b>	<b>9,112,580</b>	<b>1,370,499,020</b>	<b>1,350,946,483</b>	<b>(19,552,537)</b>	
<b>Payments</b>						
Employee costs and payments to suppliers	(399,662,967)	(11,974,425)	<b>(411,637,392)</b>	(386,179,499)	<b>25,457,893</b>	
Suppliers	(732,103,822)	(14,237,640)	<b>(746,341,462)</b>	(822,615,329)	<b>(76,273,867)</b>	
Finance costs	(22,158,395)	-	<b>(22,158,395)</b>	(29,713,232)	<b>(7,554,837)</b>	
	<b>(1,153,925,184)</b>	<b>(26,212,065)</b>	<b>(1,180,137,249)</b>	<b>(1,238,508,060)</b>	<b>(58,370,811)</b>	
<b>Net cash flows from operating activities</b>	<b>207,461,256</b>	<b>(17,099,485)</b>	<b>190,361,771</b>	<b>112,438,423</b>	<b>(77,923,348)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(444,228,959)	15,880,866	<b>(428,348,093)</b>	(342,645,110)	<b>85,702,983</b>	
Proceeds from sale of property, plant and equipment	-	-	-	10,525,747	<b>10,525,747</b>	
<b>Net cash flows from investing activities</b>	<b>(444,228,959)</b>	<b>15,880,866</b>	<b>(428,348,093)</b>	<b>(332,119,363)</b>	<b>96,228,730</b>	
<b>Cash flows from financing activities</b>						
Movement in long term loans	262,681,564	-	<b>262,681,564</b>	257,256,608	<b>(5,424,956)</b>	
Movement in finance leases	-	-	-	(255,412)	<b>(255,412)</b>	
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(255,412)</b>	<b>(255,412)</b>	
Net increase/(decrease) in cash and cash equivalents	(236,767,703)	(1,218,619)	<b>(237,986,322)</b>	(219,936,352)	<b>18,049,970</b>	
Cash and cash equivalents at the beginning of the year	327,907,203	(120,727,203)	<b>207,180,000</b>	327,907,203	<b>120,727,203</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>91,139,500</b>	<b>(121,945,822)</b>	<b>(30,806,322)</b>	<b>107,970,851</b>	<b>138,777,173</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2015</b>											
<b>Financial Performance</b>											
Property rates	242,669,800	(24,724,120)	217,945,680	-		217,945,680	209,012,676		(8,933,004)	96 %	86 %
Service charges	937,619,664	2,750,001	940,369,665	-		940,369,665	833,255,041		(107,114,624)	89 %	89 %
Investment revenue	25,002,959	-	25,002,959	-		25,002,959	24,314,535		(688,424)	97 %	97 %
Transfers recognised - operational	298,618,069	3,816,013	302,434,082	-		302,434,082	290,536,619		(11,897,463)	96 %	97 %
Other own revenue	22,451,401	366,103	22,817,504	-		22,817,504	359,365,684		336,548,180	1,575 %	1,601 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1,526,361,893</b>	<b>(17,792,003)</b>	<b>1,508,569,890</b>	-		<b>1,508,569,890</b>	<b>1,716,484,555</b>		<b>207,914,665</b>	<b>114 %</b>	<b>112 %</b>
Employee costs	(399,662,967)	(11,974,425)	(411,637,392)	-	-	(411,637,392)	(359,262,611)	-	52,374,781	87 %	90 %
Remuneration of councillors	(18,120,877)	-	(18,120,877)	-	-	(18,120,877)	(20,123,948)	-	(2,003,071)	111 %	111 %
Debt impairment	(296,728,014)	197,818,676	(98,909,338)			(98,909,338)	50,390,243	-	149,299,581	(51)%	(17)%
Depreciation and asset impairment	(238,001,942)	-	(238,001,942)			(238,001,942)	(305,859,137)	-	(67,857,195)	129 %	129 %
Finance charges	(22,158,395)	-	(22,158,395)	-	-	(22,158,395)	(33,541,596)	-	(11,383,201)	151 %	151 %
Materials and bulk purchases	(432,240,000)	17,240,000	(415,000,000)	-	-	(415,000,000)	(479,490,916)	-	(64,490,916)	116 %	111 %
Other expenditure	(451,556,493)	(50,846,589)	(502,403,082)	-	-	(502,403,082)	(492,340,630)	-	10,062,452	98 %	109 %
<b>Total expenditure</b>	<b>(1,858,468,688)</b>	<b>152,237,662</b>	<b>(1,706,231,026)</b>	-	-	<b>(1,706,231,026)</b>	<b>(1,640,228,595)</b>	-	<b>66,002,431</b>	<b>96 %</b>	<b>88 %</b>
<b>Surplus/(Deficit)</b>	<b>(332,106,795)</b>	<b>134,445,659</b>	<b>(197,661,136)</b>	-		<b>(197,661,136)</b>	<b>76,255,960</b>		<b>273,917,096</b>	<b>(39)%</b>	<b>(23)%</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	(130,360,000)	(7,776,000)	(138,136,000)	-		(138,136,000)	(129,901,985)		8,234,015	94 %	100 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(462,466,795)</b>	<b>126,669,659</b>	<b>(335,797,136)</b>	-		<b>(335,797,136)</b>	<b>(53,646,025)</b>		<b>282,151,111</b>	<b>16 %</b>	<b>12 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>(462,466,795)</b>	<b>126,669,659</b>	<b>(335,797,136)</b>	-		<b>(335,797,136)</b>	<b>(53,646,025)</b>		<b>282,151,111</b>	<b>16 %</b>	<b>12 %</b>
<b>Cash flows</b>											
Net cash from (used) operating	207,461,256	(17,099,485)	190,361,771	-		190,361,771	97,823,425		(92,538,346)	51 %	47 %
Net cash from (used) investing	(444,228,959)	15,880,866	(428,348,093)	-		(428,348,093)	(341,818,900)		86,529,193	80 %	77 %
Net cash from (used) financing	262,681,564	-	262,681,564	-		262,681,564	256,901,196		(5,780,368)	98 %	98 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>25,913,861</b>	<b>(1,218,619)</b>	<b>24,695,242</b>	-		<b>24,695,242</b>	<b>12,905,721</b>		<b>(11,789,521)</b>	<b>52 %</b>	<b>50 %</b>
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	327,907,203		327,907,203	DIV/0 %	DIV/0 %
<b>Cash and cash equivalents at year end</b>	<b>25,913,861</b>	<b>(1,218,619)</b>	<b>24,695,242</b>	-		<b>24,695,242</b>	<b>340,812,924</b>		<b>(316,117,682)</b>	<b>1,380 %</b>	<b>1,315 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand.

#### 1.2 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if: (a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and (b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises direct labour, material and overhead, if appropriate.

#### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.3 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipments

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	30 years
Infrastructure	
• Roads and Paving	80 years
• Bridges	80 years
• Stormwater	50 years
• Electrical substation	30 years
• Fencing	20 years
• Layering	20 years
• Electrical mains	20 years
• Containers	10 years
• Power station	60 years
• Reticulation	25 years
• Electricity transformers	30 years
• Underground lines	45 years
• Electricity panels	5 years
• Street lightning	25 years
• Telemetry	7 years
• Overhead lines	30 years
• Cables	45 years
Community	
• Clinic and health facilities	30 years
• Stadiums	80 years
• Security systems	5 years
Other Assets	
• Honey sucker tanker	10 years
• Bins and containers	5 years
• Emergency equipment	5 years
• Motor vehicle	5 years
• Office equipment	5 years
• Furniture and fittings	7 years
• Plant and equipment	5 years
• Landfill site	55 years
• Computer equipment	5 years
Heritage	
• Buildings	80 years
• Museums	80 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
    - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

The municipality accounts for and measures landfill assets using the cost model.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.7 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

# Newcastle Municipality

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### 1.7 Heritage assets (continued)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

### Initial measurement

If the initial accounting for heritage assets is incomplete at the end of the accounting period which the Standard becomes effective or the transfer occurs, whichever is later, the entity shall report in its financial statements provisional amounts for those heritage assets for which the accounting is incomplete. During the measurement period, the entity shall retrospectively adjust the provisional amounts recognised to reflect information obtained about facts and circumstances that existed on the effective date of the Standard in accordance with paragraph 121 .

The municipality adopted the Accounting Standard for heritage assets in 2012.

### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

# Newcastle Municipality

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## Accounting Policies

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### 1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control over those policies. The municipality exercise judgement in the context of all available information to determine if it has significant influence over an investee. .

The municipality commences accounting for an investment in an associate from the date significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures of financial instruments depending on the nature of the retained investment.

The municipality accounts for investment in associate under the equity method in the financial statements. The equity method involves recognising the investment in associate initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statements of Financial Performance presents the investors share of the associates surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associates in applying the equity method. Where the reporting period of the associate and the municipality are different, separate financial statements for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments to the effect of any significant events or transactions between the investor and the associate that occur between the associate and the municipality. Adjustments are made to ensure consistency between the accounting policies of the municipality and associate.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

# Newcastle Municipality

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### 1.9 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 1.9 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Cash includes cash on hand (including petty cash) and cash at bank (including call deposits). cash equivalents are short term and highly liquid investments, readily convertible into known amounts of cash, that are held with registered with institutions with maturities of three months or less and are subject to an insignificant risk of change in value. for the purposes of cash flowstatement, cash and cash equivalents comprise cash on hand, deposits held on call with banks nett of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets as financial assets. financial assets are amortised at cost.

#### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

# Newcastle Municipality

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## Accounting Policies

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### 1.10 Leases (continued)

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

# Newcastle Municipality

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### 1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

# Newcastle Municipality

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## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.14 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent the the municipality has complied with any of the criteria, condition or obligation embodied in the agreement, to the extent the the criteria, condition or obligation have not been met a liability is recognised.

### 1.15 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.15 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2014 to 6/30/2015.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.16 Investments

When the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.17 Cash and Cash Equivalent

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as Financial assets. The closing balance on the bank account is representative of its fair value of the monies held.

### 1.18 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.19 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 1.19 Employee benefits (continued)

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.19 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.19 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.19 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.19 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.19 Employee benefits (continued)

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.20 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.20 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.20 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
    - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.21 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.21 Revenue from exchange transactions (continued)

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

### 1.22 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.22 Revenue from non-exchange transactions (continued)

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

#### Recognition

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

#### Services in-kind

Services in-kind are not recognised.

### 1.23 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.24 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.25 Self Insurance fund

The self insurance fund is used to fund the payment of insurance excesses in respect of insurance claims submitted.

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

### 1.26 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.27 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.27 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.28 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.29 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

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### 1.30 Use of estimates

The preparation of annual financial statements in conformity with the Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a high degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed to the relevant sections in the annual financial statements.

Although these estimates are based on managements' best knowledge of current events and actions that may undertake in future, actual results ultimately differ from those estimates.

### 1.31 Capital commitments

Capital commitments are approved and contracted for when the tender is awarded to the contractor and valid contracts has been signed by both the Accounting Officer and the contractor.

Capital commitments are approved but not yet contracted for are those capital projects that are appropriated in the capital budget and which are approved by council. These are municipal capital projects for which the tendering process has not commenced and therefore not yet allocated to a contractor through competitive bidding process.

### 1.32 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.33 Events after the Reporting date

The municipality that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the accounting for, and disclosure of, events after the reporting date.

If the municipality receives information after the reporting date, but before the financial statements are authorised for issue, about conditions that existed at the reporting date, it shall update disclosures that relate to these conditions, in the light of the new information.

In some cases, municipality needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorised for issue, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting date about a contingent liability that existed at the reporting date. In addition to considering whether it should now recognise a provision an entity updates its disclosures about the contingent liability in the light of that evidence.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	Unknown	
• GRAP32: Service Concession Arrangements: Grantor	Unknown	
• GRAP108: Statutory Receivables	Unknown	

### 3. Investment property

	2015		2014	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment
Investment property	207,527,190	-	207,527,190	281,734,000

#### Reconciliation of investment property - 2015

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	281,734,000	(2,252,000)	(71,954,810)	207,527,190

#### Reconciliation of investment property - 2014

	Opening balance	Disposals	Transfers	Impairments	Fair value adjustments	Total
Investment property	174,448,593	(283,000)	5,094,000	(89,036,593)	191,511,000	281,734,000

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 3. Investment property (continued)

#### Details of valuation

The municipality has not pledged investment properties as security.

The value of all municipal properties is R 207,527,190 (2014: R 281,734,000).

Investment property values were adjusted by R 71 954 810 which was recognised in the surplus and deficit for the current year by comparison of property values reflected in the asset register to the latest General Valuation Roll. Municipal properties were valued by a professional appraiser, i.e. Spectrum Valuations and Asset Solutions

In 2014, Investment properties were reflected as R 273 695 000 which was determined by a professional valuer, ie e-Valuations , independent of the Municipality. The opening balance has been restated to be R281 734 000 to include held for sale closing balance for 2013/14 after the revised GRAP 100 effect.

#### Property values were determined using the following bases:

For properties such as vacant land, residential properties, etc, a comparative sales method of valuation was used which considered properties similar in size, improvements, physical condition, locality and used for the same purposes of the subject property which were sold as close to the valuation date.

For rental producing properties, the Capitalisation of Income Method was used to determine the value of properties which considered the locality, the condition of the property, the type and strength of the tenant, the terms and length of the lease and the state of the property market at valuation date.

For properties such as churches, sports complexes, local authority buildings, police stations, libraries, public gardens, etc, which do not have an active market, a depreciated replacement method of valuation was used to determine property values.

For municipal properties that are considered un-salable which are comprised of cemeteries, roads, parking areas, public servitudes and small remainder of land a nominal value was applied and added to the depreciated replacement value.

Fair value adjustment to investment	(71,954,810)	(102,474,407)
Rental revenue from investment property	(1,375,868)	(1,004,254)

### 4. Property, plant and equipment

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	57,818,892	-	-	-	(616,150)	(6,504,442)	50,698,300
Buildings	45,183,743	-	-	-	-	(2,276,819)	42,906,924
Infrastructure	2,956,401,161	909,788	-	131,732,012	-	(265,775,095)	2,823,268,481
Community	81,937,779	-	-	-	-	(3,348,383)	78,589,396
Work in progress	597,908,609	329,716,497	-	(146,811,818)	-	-	780,813,288
Finance lease assets	769,064	-	-	-	-	(160,896)	608,168
Other property, plant and equipment	78,731,881	10,495,133	(252,314)	10,285,044	-	(23,896,401)	75,363,343
	<b>3,818,751,129</b>	<b>341,121,418</b>	<b>(252,314)</b>	<b>(4,794,762)</b>	<b>(616,150)</b>	<b>(301,962,036)</b>	<b>3,852,247,900</b>

#### Reconciliation of property, plant and equipment - 2014 restated

	Opening balance	Additions	Additions through entity combinations	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	57,052,944	5,434,634	-	-	-	(4,668,685)	-	-	-	57,818,892
Buildings	45,332,917	-	-	1,590,271	-	13,762	(2,184,944)	-	431,737	45,183,743
Infrastructure	1,035,247,463	46,181	562,825,867	116,668,304	1,052,491,773	415,557,117	(226,421,567)	(25,250)	11,888	2,956,401,161
Community	73,739,756	373,445	-	10,499,008	-	121,882	(3,345,512)	-	549,200	81,937,779
Work in progress	359,239,862	379,271,217	-	(140,602,470)	-	-	-	-	-	597,908,609
Finance lease assets	189,126	774,378	-	-	-	-	(194,440)	-	-	769,064
Other property, plant and equipment	67,470,441	29,234,522	8,742,023	-	-	-	(15,221,310)	(11,493,803)	-	78,731,881
	<b>1,638,272,509</b>	<b>415,134,377</b>	<b>571,567,890</b>	<b>(11,844,887)</b>	<b>1,052,491,773</b>	<b>415,692,761</b>	<b>(252,036,458)</b>	<b>(11,519,053)</b>	<b>992,825</b>	<b>3,818,751,129</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 5. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,987,119	(1,174,603)	1,812,516	2,097,323	(749,322)	1,348,001

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	1,348,001	889,796	(425,281)	1,812,516

#### Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software	2,097,323	(749,322)	1,348,001

### 6. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	2,964,899	-	2,964,899	2,904,899	-	2,904,899

# Newcastle Municipality

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### 6. Heritage assets (continued)

#### Reconciliation of heritage assets 2015

	Opening balance	Additions	Total
Museums, painting and artifacts	2,904,899	60,000	2,964,899

#### Reconciliation of heritage assets 2014

	Opening balance	Total
Museums, painting and artifacts	2,904,899	2,904,899

### 7. Investments in associates

Name of entity	Listed / Unlisted	% holding 2015	% holding 2014	Carrying amount 2015	Carrying amount 2014
Uthukela Water (Pty) Ltd		34.00 %	34.00 %	<u>413,062,905</u>	<u>131,855,333</u>

The carrying amounts of associates are shown net of impairment losses.

#### Movements in carrying value

Opening balance	131,855,333	819,008,493
Share of surplus/deficit	(43,322,729)	(14,248,538)
Impairment/Gain of investment	324,530,301	(97,644,480)
Prior year restatement	-	(22,966,966)
Assets and liabilities transferred from the associate	-	(552,293,176)
	<u>413,062,905</u>	<u>131,855,333</u>

### 8. Inventories

Water stock	357,450	664,722
Consumable stores	10,835,800	11,919,983
	<u>11,193,250</u>	<u>12,584,705</u>
Provision for impairment of inventory	(297,014)	(145,564)
	<u>10,896,236</u>	<u>12,439,141</u>

### 9. Other financial assets

#### At amortised cost

UTHukela Water (Proprietary) Limited	-	3,003,770
Stand debtors	9,836	11,558
	<u>9,836</u>	<u>3,015,328</u>

### 10. Receivables from exchange transactions

Deposits	1,853,462	1,537,043
Sundry debtors	469,158	9,914,112
Other receivables	20,775,137	12,561,791
	<u>23,097,757</u>	<u>24,012,946</u>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>11. Receivables from non-exchange transactions</b>		
Fines (Gross balance)	32,548,243	27,820,092
Less: Provision for impairment	<u>(22,413,314)</u>	<u>(19,239,129)</u>
	<b><u>10,134,929</u></b>	<b><u>8,580,963</u></b>
<b>Reconciliation of Fines</b>		
Opening Balance	27,820,092	21,352,522
Add: Fines recognised	7,037,716	8,993,975
Less: Fines received	<u>(2,309,565)</u>	<u>(2,526,405)</u>
	<b><u>32,548,243</u></b>	<b><u>27,820,092</u></b>
<b>Reconciliation for provision of impairments</b>		
Opening balance	19,239,129	14,766,447
Add: Contribution to provision for impairment	3,174,190	4,472,682
	<b><u>22,413,319</u></b>	<b><u>19,239,129</u></b>
<b>Fines Revenue recognised in surplus comprises of:</b>		
Traffic fines	7,037,716	8,993,975
Other fines	31,538	28,509
	<b><u>7,069,254</u></b>	<b><u>9,022,484</u></b>
<b>12. VAT receivable</b>		
VAT	<u>27,751,286</u>	<u>34,801,284</u>
<b>13. Prepayments</b>		
SALGA Membership fee for 201516	4,115,781	-
Discount earned	<u>(205,789)</u>	<u>-</u>
	<b><u>3,909,992</u></b>	<b><u>-</u></b>
The municipality has taken an advantage of paying the 2015/16 membership fee, for South African Local Government and Association, in the current year to earn discount.		

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>14. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	143,977,122	106,157,640
Electricity	97,111,250	66,104,890
Water	252,984,290	232,884,594
Sewerage	179,200,960	142,763,484
Refuse	83,171,522	65,687,073
Other	66,526,990	63,097,914
VAT and sundry services	326,992,780	318,119,093
	<b>1,149,964,914</b>	<b>994,814,688</b>
<b>Less: Allowance for impairment</b>		
Rates	-	(47,469,261)
Electricity	(9,090,334)	(15,905,762)
Water	(145,941,440)	(101,051,473)
Sewerage	-	(66,200,957)
Refuse	-	(32,749,471)
Other	-	(35,063,585)
VAT and sundry services	(245,926,551)	(174,249,871)
	<b>(400,958,325)</b>	<b>(472,690,380)</b>
<b>Net balance</b>		
Rates	143,977,122	58,688,379
Electricity	88,020,916	50,199,128
Water	107,042,849	131,833,121
Sewerage	179,200,960	76,562,527
Refuse	83,171,522	32,937,602
Other	66,526,990	28,034,329
VAT and sundry services	81,066,229	143,869,222
	<b>749,006,588</b>	<b>522,124,308</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	97,111,250	66,104,890
Water	252,984,290	232,884,594
Sewerage	179,200,960	142,763,484
Refuse	83,171,522	65,687,073
Other	66,526,990	63,097,914
VAT and sundry services	326,992,780	318,119,093
	<b>1,005,987,792</b>	<b>888,657,048</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	143,977,122	106,157,640
Total	<b>1,149,964,914</b>	<b>994,814,688</b>
<b>Rates</b>		
Current (0 -30 days)	20,970,460	16,019,462
31 - 60 days	4,753,199	3,001,728
61 - 90 days	4,443,580	2,830,507
91 - 120 days	4,367,379	2,748,242
121 - 365 days	4,250,644	2,565,911
> 365 days	105,191,863	78,991,789
	<b>143,977,125</b>	<b>106,157,639</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 14. Consumer debtors (continued)

#### Electricity, Water, Sewerage and Refuse

Current (0 -30 days)	131,947,085	137,734,501
31 - 60 days	14,458,347	13,392,696
61 - 90 days	13,088,129	13,098,134
91 - 120 days	14,097,023	13,250,897
121 - 365 days	14,013,363	12,080,786
> 365 days	424,864,077	317,883,025
	<b>612,468,024</b>	<b>507,440,039</b>

#### VAT and Sundries

Current (0 -30 days)	7,957,125	(2,111,681)
31 - 60 days	2,309,276	5,445,670
61 - 90 days	2,498,978	2,069,149
91 - 120 days	2,199,654	2,599,900
121 - 365 days	2,311,785	1,904,432
> 365 days	309,715,962	308,211,624
	<b>326,992,780</b>	<b>318,119,094</b>

#### Other

Current (0 -30 days)	795,496	(125,317)
31 - 60 days	1,032,861	623,727
61 - 90 days	773,287	673,232
91 - 120 days	826,297	626,138
121 - 365 days	973,542	626,387
> 365 days	62,125,507	60,673,747
	<b>66,526,990</b>	<b>63,097,914</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 14. Consumer debtors (continued)

#### Summary of debtors by customer classification

##### **Consumers**

Current (0 -30 days)	100,430,659	42,733,791
31 - 60 days	19,239,321	19,140,476
61 - 90 days	18,598,301	16,420,346
91 - 120 days	19,427,789	16,432,122
121 - 365 days	19,417,951	15,325,641
> 365 days	838,023,866	706,070,736
	<hr/>	<hr/>
Less: Allowance for impairment	1,015,137,887	816,123,112
	(380,685,910)	(387,761,900)
	<hr/>	<hr/>
	<b>634,451,977</b>	<b>428,361,212</b>

##### **Industrial/ commercial**

Current (0 -30 days)	58,703,321	107,668,687
31 - 60 days	2,913,475	2,596,370
61 - 90 days	1,893,374	1,600,356
91 - 120 days	1,787,472	2,132,892
121 - 365 days	1,718,380	1,275,927
> 365 days	50,722,698	43,902,084
	<hr/>	<hr/>
Less: Allowance for impairment	117,738,720	159,176,316
	(20,272,416)	(75,628,922)
	<hr/>	<hr/>
	<b>97,466,304</b>	<b>83,547,394</b>

##### **National and provincial government**

Current (0 -30 days)	2,536,184	(926,411)
31 - 60 days	400,888	729,984
61 - 90 days	312,296	651,921
91 - 120 days	275,092	662,348
121 - 365 days	413,002	577,560
> 365 days	13,150,844	17,877,395
	<hr/>	<hr/>
Less: Allowance for impairment	17,088,306	19,572,797
	-	(9,299,559)
	<hr/>	<hr/>
	<b>17,088,306</b>	<b>10,273,238</b>

##### **Total**

Current (0 -30 days)	161,670,166	149,476,067
31 - 60 days	22,553,684	22,466,830
61 - 90 days	20,803,971	18,672,623
91 - 120 days	21,490,353	19,227,362
121 - 365 days	21,549,333	17,179,128
> 365 days	901,897,408	767,792,678
	<hr/>	<hr/>
Less: Allowance for impairment	1,149,964,915	994,814,688
	(400,958,325)	(472,690,380)
	<hr/>	<hr/>
	<b>749,006,590</b>	<b>522,124,308</b>

##### **Reconciliation of allowance for impairment**

Balance at beginning of the year	(472,690,380)	(503,869,203)
Contributions to allowance	50,390,243	15,650,474
Debt impairment written off against allowance	21,341,812	15,528,349
	<hr/>	<hr/>
	<b>(400,958,325)</b>	<b>(472,690,380)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 14. Consumer debtors (continued)

#### Consumer debtors impaired

As of June 30, 2015, consumer debtors of R 21,341,812 (2014: R 15,528,349) were impaired and provided for.

The amount of the provision was R 255,784,689 as of June 30, 2015 (2014: R 472,690,380).

### 15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,558,173	579,682
Bank balances	234,443,814	109,434,277
Short-term Investments	104,810,937	217,893,244
	<u>340,812,924</u>	<u>327,907,203</u>

# Newcastle Municipality

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### 15. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2015	June 30, 2014	June 30, 2013
FNB - 53140035974	232,756,333	107,961,682	3,402,192	234,443,814	109,434,277	5,611,194
FNB - 53140063149	1,687,481	1,472,595	1,558,560	-	-	-
<b>Total</b>	<b>234,443,814</b>	<b>109,434,277</b>	<b>4,960,752</b>	<b>234,443,814</b>	<b>109,434,277</b>	<b>5,611,194</b>

2015 2014

Money Markets Accounts	54,210,694	51,363,197
Call Investment Accounts	50,600,243	166,530,048
	<b>104,810,937</b>	<b>217,893,245</b>

#### Call Investments

FNB - 62104301388	-	1,493,343
FNB - 62336749497	-	5,610,568
Nedbank - 764855555441/10	245,510	245,510
Nedbank - 764855555441/01	4,601,402	4,601,402
Nedbank - 764855555441/013	196,289	196,289
ABSA - 9288456248	5,004,369	5,004,788
ABSA - 9112678241	4,368,802	4,369,252
ABSA - 9300506428	87,261	-
ABSA - 9293256166	-	51,100,000
ABSA - 9123294032	167,962	168,215
Standard Bank - 68450354/015	8,928,648	8,475,159
Standard Bank - 68450354/016	22,605,683	27,297,577
Standard Bank - 68450354/001	4,313,403	4,313,993
Standard Bank - 68450354/030	-	2,500,000
Standard Bank - 68450354/034	-	48,800,000
Standard Bank - 68450354/009	-	2,273,026
Standard Bank - 68450354/008	80,915	80,926
	<b>50,600,244</b>	<b>166,530,048</b>

#### Money Market Accounts

Sanlam - 1246107	54,210,694	51,363,197
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#### Interest Income

Interest on primary bank account	4,562,073	3,357,513
Interest on investment accounts	11,419,795	13,823,408
	<b>15,981,868</b>	<b>17,180,921</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>16. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	386,033	509,592
- in second to fifth year inclusive	-	231,853
	<u>386,033</u>	<u>741,445</u>
less: future finance charges	-	(205,112)
<b>Present value of minimum lease payments</b>	<b><u>386,033</u></b>	<b><u>536,333</u></b>
 <b>Present value of minimum lease payments due</b>		
- within one year	386,033	355,413
- in second to fifth year inclusive	-	180,920
	<u>386,033</u>	<u>536,333</u>
Non-current liabilities	-	231,853
Current liabilities	<u>386,033</u>	<u>509,592</u>
	<u><b>386,033</b></u>	<u><b>741,445</b></u>

The average lease term is 2 years and the average effective borrowing rate was 26% (2014: 26%).

Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rental.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 17. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

Municipal Water Infrastructure Grant	5,678,984	1,921,276
Municipal Systems Improvement Grant	(1,459)	410,588
Grant Skills Development	3,083,324	98,991
Cleanest town	823,975	823,975
Environmental Management Framework	502,871	572,310
Neighbourhood Development Partnership	15,020,935	-
Electrification Grant	21,817	-
Expanded Public Works Programme	344,030	-
Water Services Operating & Masification Subsidies	-	3,392,557
KwaMathukuza Housing Projects	14,065,853	14,065,853
JBC Housing Project	1,954,887	3,000,000
Repair construction storm damaged houses	1,218,041	1,218,041
Madadeni/Osizweni upgrading of houses	2,080,114	2,080,114
Housing Osizweni Sec E	1,093,885	-
Capacity Building housing	9,186,381	6,454,848
Newcastle Airport	1,031,339	143,775
Fort Amiel Museum	435,000	284,000
Osizweni Art Centre	36,920	36,921
MIG PMU	-	252,435
LED Project	-	1,500,000
Carnegie Art Gallery	373,090	284,000
Sus Acc: Fund Drought Relief	23,054	23,054
Osizweni F phase 1 sewer	72,484	72,484
Viljoen park upgrade	2,400,000	2,400,000
WC/WDM	21,119	21,119
Corridor Development	135,244	135,244
Provincialisation - Libraries	5,118,880	3,107,111
Newcastle library internet project	5,533	7,535
Madadeni Library Internet	139,505	143,549
Osizweni library internet project	46,327	75,432
Construct/Upgrade sport recreations	636,487	993,604
Sport and Recreations	60,984	-
Ingogo Fresh Produce	4,000,000	-
	<b>69,609,604</b>	<b>43,518,816</b>

The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited.

### 18. Other financial liabilities

#### At amortised cost

DBSA loans	214,399,518	241,982,869
ABSA Bank loans	284,839,959	-
	<b>499,239,477</b>	<b>241,982,869</b>

The municipality has 19 loans, 18 (eighteen) from Development of Southern Africa (DBSA) and 1 (one) from ABSA Bank. Each loan has a fixed interest rate however, all loans have different interest rates. Interest rates are between 5% and 11.85% per annum, payable half yearly.

Long term loans are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

#### Non-current liabilities

At amortised cost	<b>471,912,802</b>	<b>221,003,266</b>
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# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>18. Other financial liabilities (continued)</b>		
<b>Current liabilities</b>		
At amortised cost	27,326,675	20,979,603

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 19. Defined Benefit Plan

#### Reconciliation of defined benefit plan - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Employee benefits	98,228,265	4,878,084	(4,425,946)	4,700,243	8,523,720	111,904,366

#### Reconciliation of defined benefit plan - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Employee benefits	110,375,909	6,602,228	(3,437,863)	(23,189,640)	7,877,631	98,228,265
Non-current liabilities					107,212,753	93,802,319
Current liabilities					4,691,613	4,425,946
					<u>111,904,366</u>	<u>98,228,265</u>

#### Health care benefits

Balance at the beginning of the year	82,957,600	96,855,287
Current service cost	3,440,426	5,306,118
Contributions paid	(2,576,316)	(2,205,782)
Actuarial (gain)/loss	3,635,686	(23,940,072)
Interest	7,377,247	6,942,049
	<u>94,834,643</u>	<u>82,957,600</u>

#### Net expenses recognised in Statement of Financial Performance

Current services cost	3,440,426	5,306,118
Benefits paid	(2,576,316)	(2,205,782)
Actuarial (gain)/ loss	3,635,686	(23,940,072)
Interest	7,377,247	6,942,049
	<u>11,877,043</u>	<u>(13,897,687)</u>

#### Long service bonus awards

Balance at the beginning of the year	15,270,665	13,520,622
Current service costs	1,437,658	1,296,110
Contributions paid	(1,849,630)	(1,232,081)
Actuarial (gain) / loss	1,064,557	750,432
Interest	1,146,473	935,582
	<u>17,069,723</u>	<u>15,270,665</u>

#### Net expense recognised in the statement of Financial Performance

Current services cost	1,437,658	1,296,110
Benefits paid	(1,849,630)	(1,232,081)
Actuarial (gain) / loss	1,064,557	750,432
Interest	1,146,473	935,582
	<u>1,799,058</u>	<u>1,750,043</u>

Assumptions

Health Care Benefits

# Newcastle Municipality

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### 19. Defined Benefit Plan (continued)

The municipality provides certain post retirements medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2015 by ARCH Actuarial Consulting, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post retirement medical benefits are provided by the municipality.

Key financial assumptions used		
Discount rate	8.78%	
Health care cost inflation rate	7.99%	
Net effective discount rate	0.73%	
Unfunded Accrued Liability	R94 834 643	
Current-service and Interest Costs ended 30 June 2015	R3 440 426	Year
Interest Cost	R7 377 247	
Actuarial (Gain)/Loss Recognised in Surplus/Deficit	R3 635 686	
Long service Bonus Awards		
The long service bonus award is a function of accumulated leave days that is converted into cash in the year the employee attains the service eligible for an award at a rate of 1/250 of annual salary per day.		
Key financial assumptions used		
Discount rate	7.90%	
General Salary Inflation	7.06%	
Net effective discount rate	0.78%	
The salaries used in the valuation include an assumed increase on 1 July 2015 of 6% as per the 2015/16 Newcastle Municipiaplity approved budget. SALGBC has not yet approved the salary increase for 2015/16 financial year.		
Key Demographic Assumptions used		
Average retirement age	63	
Mortality during employment	SA 85-90	
Withdrawal from service (sample annual rates)	Age      Rate - Female      Rate - Male	
	20      24%      16%	
	30      15%      10%	
	40      6%      6%	
	50      2%      2%	
	55+      0%      0%	
Unfunded Accrued Liability value of liabilities	R17 069 721	Total Value
of Assets	R0	
Unfunded Accrued Liabilities	R17 069 721	
Current service and Interest Costs	R1 437 658	
Current Cost	R1 146 473	
Interest Cost		
Comparative of Vital Statistics		
Number of elegible employees	1322	
Average annual salary	R149 831	
Salary-weighted average age	42.80	
Salary-weighted average past service	11.1	

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 20. Provision for Rehabilitation of Landfill site

The movement in the non-current provision is reconciled as follows:

Balance at the beginning of the year	25,860,274	22,923,190
Decrease in provision	(616,151)	1,473,295
Finance charges recognised	1,956,420	1,463,789
	<b>27,200,543</b>	<b>25,860,274</b>

### 21. Payables from exchange transactions

Trade payables	112,889,763	146,990,929
Retentions	29,789,858	30,425,211
Output VAT on levies	88,864,759	74,380,862
Other payables	839,530	-
Stale cheques written back	379,523	277,167
Operating lease accrual - straight-lining of operating leases	136,100	247,442
Leave pay provision	20,854,376	33,063,936
Bonus provision	8,288,426	7,789,124
Other payables	10,221,913	12,073,875
	<b>272,264,248</b>	<b>305,248,546</b>

The fair value of trade and other payables approximates their carrying amounts.

Trade and other payables are non-interest bearing and are normally settled within 30 days, except retentions that could be settled after 12 months of completed projects. Management policies are in place to ensure that all payables are paid within a reasonable timeframe, within 30 days.

### 22. Consumer deposits

Electricity	10,867,308	9,524,161
Refuse	132,714	394,702
Housing rental	48,062	51,142
	<b>11,048,084</b>	<b>9,970,005</b>

### 23. Service charges

Service connections	5,352,626	5,317,399
Sale of electricity	563,655,703	533,735,217
Sale of water	139,248,180	137,877,934
Sewerage and sanitation charges	72,050,978	68,710,060
Refuse removal	52,947,554	50,442,159
	<b>833,255,041</b>	<b>796,082,769</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 24. Property rates

#### Rates received

Property rates	222,437,651	183,052,004
Less: Income forgone	(13,424,974)	(7,573,327)
	<u>209,012,677</u>	<u>175,478,677</u>

#### Valuations

Residential	13,008,846,000	9,627,634,780
Commercial	3,814,859,000	3,702,862,600
State	2,114,029,000	92,106,501
Vacant	446,894,500	285,095,100
Specialised non-market	1,349,800,000	1,054,734,000
Agriculture	1,340,451,000	702,104,000
Communal land	89,290,000	85,345,000
	<u>22,164,169,500</u>	<u>15,549,881,981</u>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

### 25. Rental of facilities and equipment

#### Premises

Municipal housing	3,097,943	2,366,382
Venue hire	651,920	519,684
Other	2,575,361	1,753,908
	<u>6,325,224</u>	<u>4,639,974</u>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 26. Government grants and subsidies

#### Operating grants

Equitable share	284,747,000	276,638,000
Newcastle library internet project	128,002	142,673
Finance management grant	1,600,000	2,028,255
Skills development grant	8,100	709,819
Expanded Public Works programme incentive	2,066,970	1,336,465
Neighbourhood development partnership	4,755,065	5,784,934
Electrification grant	3,978,183	15,043,459
JBC housing project	1,045,113	1,500,000
Water services operating & masification subsidies	3,392,557	17,073,793
Municipal infrastructure grant	107,320,000	101,050,608
Municipal systems improvement grant	1,346,048	1,279,412
Environmental management framework	69,439	381,190
MIG PMU Allocation	252,436	4,015,217
Construct/Upgrade sport/Recreation	1,407,117	116,126
Madadeni library internet project	130,044	101,329
Municipal Water Infrastructure Grant	3,282,292	3,564,723
Osiweni library internet project	155,105	145,913
Provincialisation- All Libraries	2,888,231	1,608,888
Capacity building Housing	1,450,148	1,055,471
Other Government Grants and Subsidies	416,755	1,356,224
	<hr/> 420,438,605	<hr/> 434,932,499

#### Capital grants

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Equitable Share

Equitable share allocation	284,747,000	248,414,000
Funds surrendered to National Revenue Fund	-	28,224,000
	<hr/> 284,747,000	<hr/> 276,638,000

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	-	3,248,608
Current-year receipts	107,320,000	97,802,000
Conditions met - transferred to revenue	(107,320,000)	(101,050,608)

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	410,588	2,229,629
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(1,346,048)	(1,279,412)
Funds surrendered to National Treasury	-	(1,429,629)
	<hr/> (1,460)	<hr/> 410,588

Conditions still to be met - remain liabilities (see note 17).

#### Financial Management Grant

Balance unspent at beginning of year	-	1,181,255
Current-year receipts	1,600,000	1,550,000
Conditions met - transferred to revenue	(1,600,000)	(2,028,255)
Funds surrendered to National Revenue Fund	-	(703,000)

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>26. Government grants and subsidies (continued)</b>	-	-
Conditions still to be met - remain liabilities (see note 17).		
<b>Skills Development Grant</b>		
Balance unspent at beginning of year	98,991	249,209
Current-year receipts	2,992,433	559,601
Conditions met - transferred to revenue	(8,100)	(709,819)
	<b>3,083,324</b>	<b>98,991</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Expanded Works Programme Incentive</b>		
Balance unspent at beginning of year	-	26,465
Current-year receipts	2,411,000	1,310,000
Conditions met - transferred to revenue	(2,066,970)	(1,336,465)
	<b>344,030</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Environmental Management Framework</b>		
Balance unspent at beginning of year	572,310	953,500
Conditions met - transferred to revenue	(69,439)	(381,190)
	<b>502,871</b>	<b>572,310</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Neighbourhood Development Partnership</b>		
Balance unspent at beginning of year	-	16,104,934
Current-year receipts	19,776,000	10,000,000
Conditions met - transferred to revenue	(4,755,065)	(5,784,934)
Funds surrendered to National Revenue Fund	-	(20,320,000)
	<b>15,020,935</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Electrification Grant</b>		
Balance unspent at beginning of year	-	10,043,459
Current-year receipts	4,000,000	5,000,000
Conditions met - transferred to revenue	(3,978,183)	(15,043,459)
	<b>21,817</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Water Services Operating &amp; Masification Subsidies</b>		
Balance unspent at beginning of year	3,392,557	13,450,945
Current-year receipts	-	14,216,405
Conditions met - transferred to revenue	(3,392,557)	(17,073,793)
Funds surrendered to National Revenue Funds	-	(7,201,000)

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>26. Government grants and subsidies (continued)</b>	<b>-</b>	<b>3,392,557</b>
<b>KwaMatkuza Housing Project</b>		
Balance unspent at beginning of year	14,065,853	14,065,853
Conditions still to be met - remain liabilities (see note 17).		
<b>JBC Housing Project</b>		
Balance unspent at beginning of year	3,000,000	4,500,000
Conditions met - transferred to revenue	(1,045,113)	(1,500,000)
	<b>1,954,887</b>	<b>3,000,000</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Repair Construction Storm damage HS</b>		
Balance unspent at beginning of year	1,218,040	1,218,040
Conditions still to be met - remain liabilities (see note 17).		
<b>MIG PMU Allocation</b>		
Balance unspent at beginning of year	252,436	4,267,653
Conditions met - transferred to revenue	(252,436)	(4,015,217)
	<b>-</b>	<b>252,436</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Construct/Upgrade sport/Recreation</b>		
Balance unspent at beginning of year	993,603	584,729
Current-year receipts	1,050,000	525,000
Conditions met - transferred to revenue	(1,407,117)	(116,126)
	<b>636,486</b>	<b>993,603</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Madadeni library internet project</b>		
Balance unspent at beginning of year	143,549	124,878
Current-year receipts	126,000	120,000
Conditions met - transferred to revenue	(130,044)	(101,329)
	<b>139,505</b>	<b>143,549</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Municipal Water Infrastructure Grant</b>		
Balance unspent at beginning of year	1,921,277	-
Current-year receipts	7,040,000	5,486,000
Conditions met - transferred to revenue	(3,282,292)	(3,564,723)
	<b>5,678,985</b>	<b>1,921,277</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 26. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

#### Osizweni Library internet project

Balance unspent at beginning of year	75,432	101,345
Current-year receipts	126,000	120,000
Conditions met - transferred to revenue	(155,105)	(145,913)
	<u><b>46,327</b></u>	<u><b>75,432</b></u>

Conditions still to be met - remain liabilities (see note 17).

#### Provincialisation- All Libraries

Balance unspent at beginning of year	3,107,112	-
Current-year receipts	4,900,000	4,716,000
Conditions met - transferred to revenue	(2,888,231)	(1,608,888)
	<u><b>5,118,881</b></u>	<u><b>3,107,112</b></u>

Conditions still to be met - remain liabilities (see note 17).

#### Capacity Building housing

Balance unspent at beginning of year	6,454,849	4,823,000
Current-year receipts	4,181,680	2,847,338
Conditions met - transferred to revenue	(1,450,148)	(1,055,471)
Other	-	(160,018)
	<u><b>9,186,381</b></u>	<u><b>6,454,849</b></u>

Conditions still to be met - remain liabilities (see note 17).

#### Osizweni arts centre

Balance unspent at beginning of year	<u><b>36,920</b></u>	<u><b>36,920</b></u>
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Conditions still to be met - remain liabilities (see note 17).

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 26. Government grants and subsidies (continued)

#### Corridor development

Balance unspent at beginning of year	135,245	135,245
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Conditions still to be met - remain liabilities (see note 17).

#### Cleanest town

Balance unspent at beginning of year	823,975	823,975
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Conditions still to be met - remain liabilities (see note 17).

#### Newcastle Library Internet Project

Balance unspent at beginning of year	7,535	30,208
Current-year receipts	126,000	120,000
Conditions met - transferred to revenue	(128,002)	(142,673)
	<u>5,533</u>	<u>7,535</u>

Conditions still to be met - remain liabilities (see note 17).

#### Ingogo Fresh Produce

Current-year receipts	4,000,000	-
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Conditions still to be met - remain liabilities (see note 17).

#### Madadeni/Osizweni upgrading of houses

Balance unspent at beginning of year	2,080,114	-
Current-year receipts	-	2,080,114
	<u>2,080,114</u>	<u>2,080,114</u>

Conditions still to be met - remain liabilities (see note 17).

#### Fort Amiel Museum

Balance unspent at beginning of year	284,000	-
Current-year receipts	151,000	284,000
	<u>435,000</u>	<u>284,000</u>

Conditions still to be met - remain liabilities (see note 17).

#### Other grants

Balance unspent at beginning of year	4,444,432	4,444,432
Current-year receipts	2,548,278	-
Conditions met - transferred to revenue	(1,916,755)	-
	<u>5,075,955</u>	<u>4,444,432</u>

Conditions still to be met - remain liabilities (see note 17).

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 27. Interest received

#### Interest revenue

Bank	16,245,739	17,180,921
Arrear consumer accounts	8,065,421	7,621,372
Other Interest	3,375	716,017
	<b>24,314,535</b>	<b>25,518,310</b>

### 28. Revenue

Service charges	833,255,041	796,082,769
Rental of facilities and equipment	6,325,224	4,639,974
Miscellaneous other revenue	7,575,581	12,604,396
Other income	7,007,167	3,838,031
Sundry sales	672,757	647,921
Fee income	7,024,930	6,050,224
Interest received	24,314,535	25,518,310
Property rates	209,012,676	175,478,677
Government grants & subsidies	420,438,604	434,932,499
Fines	6,229,724	9,022,484
	<b>1,521,856,239</b>	<b>1,468,815,285</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	833,255,041	796,082,769
Rental of facilities and equipment	6,325,224	4,639,974
Miscellaneous other revenue	7,575,581	12,604,396
Other income	7,007,167	3,838,031
Sundry sales	672,757	647,921
Fee income	7,024,930	6,050,224
Interest received - investment	24,314,535	25,518,310
	<b>886,175,235</b>	<b>849,381,625</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue	209,012,676	175,478,677
Transfer revenue		
Government grants & subsidies	420,438,604	434,932,499
Fines	6,229,724	9,022,484
	<b>635,681,004</b>	<b>619,433,660</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

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### 29. Employee related costs

Basic	222,576,210	201,823,665
Bonus	-	7,113,340
Medical aid - company contributions	13,792,052	13,044,522
UIF	2,092,231	1,966,091
WCA	2,674,169	2,786,520
SDL	-	26,053
Leave bonus paid	15,527,306	14,057,603
Defined contribution plans	38,105,312	34,331,072
Travel, motor car, accommodation, subsistence and other allowances	2,930,996	2,340,758
Overtime payments	34,638,414	35,586,330
Long-service awards	243,531	101,872
Transport allowance	19,038,559	16,765,340
Housing benefits and allowances	7,897,285	7,904,127
Group insurance	4,239,932	4,784,862
Bargaining council	-	1,202
Night work allowance	958,876	870,606
Leave pay provision	(5,452,262)	9,984,565
	<b>359,262,611</b>	<b>353,488,528</b>

### Remuneration of the Municipal Manager

Annual Remuneration	800,440	1,102,465
Car Allowance	177,354	230,774
Contributions to UIF, Medical and Pension Funds	21,268	46,930
Performance bonuses and other bonuses	249,839	90,814
Subsistence and Travelling	15,399	38,186
Leave paid	74,617	99,818
	<b>1,338,917</b>	<b>1,608,987</b>

### Remuneration of the Chief Finance Officer

Annual Remuneration	-	371,737
Car Allowance	-	99,361
Contributions to UIF, Medical and Pension Funds	-	22,785
Subsistence and travelling	-	19,693
	<b>-</b>	<b>513,576</b>

The position of the Chief Financial Officer has not been filled yet. An acting allowance is paid

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of Executive Directors</b>		
Annual Remuneration	6,598,877	5,993,736
Travel, Motor car, accommodation, subsistence and other allowances	1,362,145	1,337,264
Performance Bonuses and other Bonuses	588,933	251,249
Contributions to UIF, Medical and Pension Funds	306,901	553,638
Leave paid	624,762	68,259
	<b>9,481,618</b>	<b>8,204,146</b>
Remuneration of Individual Executive Directors		
<b>Legal Services</b>		
Annual Remuneration	519,352	824,450
Travel, motor car, accommodation, subsistence and other allowances	93,611	153,567
Performance bonuses and other bonuses	72,667	-
Leave paid	158,623	38,581
Contributions to UIF, Medical and Pension Fund	69,631	121,088
	<b>913,884</b>	<b>1,137,686</b>
Executive Manager Legal Services' contract ended 31 January 2015 and the position is not yet filled.		
<b>Internal Audit</b>		
Annual Remuneration	992,365	587,514
Travel, car allowances, accommodation, subsistence and other allowances	29,519	16,000
Performance and other Bonuses	44,496	-
Contributions to UIF, Medical and Pension Fund	97,896	66,981
	<b>1,164,276</b>	<b>670,495</b>
<b>Technical Services</b>		
Annual Remuneration	357,903	696,921
Travel, car allowances, accommodation, subsistence and other allowances	128,330	242,698
Performance and other Bonuses	121,579	49,307
Contributions to UIF, Medical and Pension Fund	5,427	82,722
Leave paid	255,649	-
	<b>868,888</b>	<b>1,071,648</b>
Strategic Executive Director Technical Services resigned on 31 December 2014. An acting allowance is paid		
<b>Chief of Operations</b>		
Annual Remuneration	1,110,754	825,872
Travel, car allowances, accommodation, subsistence and other allowances	275,724	191,973
Performance and other bonuses	65,344	-
Leave paid	-	29,678
Contributions to UIF, Medical and Pension Fund	34,346	43,680
	<b>1,486,168</b>	<b>1,091,203</b>
Acting Municipal Manager as at 1 March 2015.		
<b>Community Services</b>		
Annual Remuneration	868,960	799,299
Travel, car allowances, accommodation, subsistence and other allowances	240,396	232,111
Performance and other bonuses	-	66,330
Contributions to UIF, Medical and Pension Fund	25,446	35,687
	<b>1,134,802</b>	<b>1,133,427</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>29. Employee related costs (continued)</b>		
<b>Corporate Services</b>		
Annual Remuneration	735,553	778,804
Travel, car allowances, accomodatio, subsistence and other allowances	208,416	238,423
Performance and other bonuses	219,438	135,613
Contributions to UIF, Medical and Pension Fund	29,978	142,672
Leave paid	225,890	-
	<b>1,419,275</b>	<b>1,295,512</b>
Strategic Executive Director Corporate Services retired on 31 March 2015. An acting allowance is paid.		
<b>Electricity Services</b>		
Annual Remuneration	1,024,133	569,766
Travel, car allowances, accomodation, subsistence and other allowances	245,230	166,046
Performance and other bonuses	65,409	-
Contributions to UIF, Medical and Pension Fund	1,785	8,416
	<b>1,336,557</b>	<b>744,228</b>
<b>Development and Planning Services</b>		
Annual Remuneration	989,857	911,109
Travel, car allowances, accomodation, subsistence and other allowances	125,519	96,446
Performance and other bonuses	42,394	-
Contributions to UIF, Medical and Pension Fund	-	52,392
	<b>1,157,770</b>	<b>1,059,947</b>
<b>Mayor</b>		
Annual Remuneration	516,122	478,051
Travel Allowance	186,507	175,950
Cellphone Allowances	20,868	20,868
Contributions to UIF, Medical and Pension Funds	42,840	32,850
Housing Allowances	24,000	24,000
Reimbursements	53,604	48,495
	<b>843,941</b>	<b>780,214</b>
<b>Deputy Mayor</b>		
Annual Remuneration	358,569	327,604
Car Allowance	149,205	140,760
Cellphone Allowance	20,868	20,868
Contributions to UIF, Medical and Pension Funds	81,383	75,910
Housing Allowances	24,000	24,000
Reimbursement	55,971	58,255
	<b>689,996</b>	<b>647,397</b>
<b>Speaker</b>		
Annual Remuneration	385,585	346,330
Travel Allowance	149,205	140,760
Cellphone Allowance	20,868	20,868
Contributions to UIF, Medical and Pension Funds	55,254	57,213
Housing Allowances	24,000	24,000
Reimbursements	73,587	79,201
	<b>708,499</b>	<b>668,372</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>30. Remuneration of councillors</b>		
Mayor	516,122	478,051
Deputy Mayor	358,269	327,604
Mayoral Committee Members	4,064,083	2,543,673
Speaker	385,585	346,330
Councillors	14,799,889	14,495,141
	<b>20,123,948</b>	<b>18,190,799</b>
<b>In-kind benefits</b>		
The Executive Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has two full-time bodyguards . The Deputy Mayor has two full-time bodyguards.		
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	<b>302,387,317</b>	<b>252,321,047</b>
<b>32. Impairment of assets</b>		
<b>Impairments</b>		
Fines	<b>3,471,820</b>	<b>10,469,528</b>
<b>33. Finance costs</b>		
Non-current borrowings	22,902,389	9,852,972
Provisions and current borrowings	10,634,320	1,472,436
Other interest paid	4,887	-
	<b>33,541,596</b>	<b>11,325,408</b>
<b>34. Debt impairment</b>		
Debt impairment	(50,390,243)	(15,650,474)
Contributions to debt impairment provision	-	4,472,681
	<b>(50,390,243)</b>	<b>(11,177,793)</b>
<b>35. Bulk purchases</b>		
Electricity	417,368,250	382,802,503
Water	62,122,666	52,805,805
	<b>479,490,916</b>	<b>435,608,308</b>
<b>36. Contracted services</b>		
Security services	17,168,341	13,499,847
Consultants fees	35,283,425	35,149,098
	<b>52,451,766</b>	<b>48,648,945</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>37. General expenses</b>		
Advertising	2,236,174	1,767,321
Assessment rates & municipal charges	8,985,808	11,951,657
Auditors remuneration	3,585,070	3,246,736
Bank charges	3,021,218	2,759,096
Commission paid	2,067	43,149
Consulting and professional fees	1,718,923	1,330,651
Entertainment	555,839	381,469
Insurance	3,130,096	5,636,776
Community development and training	5,034,592	5,176,604
IT expenses	2,020,004	25,346
Lease rentals on operating lease	28,517,406	19,933,045
Supervision/Dert of Transport	-	29,250
Magazines, books and periodicals	446,619	258,745
Motor vehicle expenses	10,642,884	9,726,101
Expenditure on Grants	15,602,486	8,952,092
Subsistence and Travelling	5,637,097	3,589,349
Fuel and oil	1,260,086	886,070
Postage and courier	2,535,830	2,352,446
Printing and stationery	3,456,103	2,905,349
Promotions	2,014,293	2,072,079
Protective clothing	4,099,621	2,750,447
Royalties and license fees	13,942	-
Subscriptions and membership fees	6,281,038	3,174,865
Telephone and fax	7,861,446	8,272,417
Training	2,139,705	2,754,404
Tools	165,904	220,363
Other expenses	66,909,723	48,273,731
Administration expenses	32,679,007	34,641,566
Contribution to post retirement benefits	4,878,084	6,602,228
Material	2,191,101	2,141,968
Signage	578,258	309,468
Special programmes	3,932,599	3,429,128
Community VIP sanitation	-	10,782,539
Chemicals	395,329	194,536
Provision for unrecoverable Input VAT	-	16,514,385
Provision for inventory impairment	152,714	145,564
Loss due theft	-	12,213
	<b>232,681,066</b>	<b>223,243,153</b>

### 38. Auditors' remuneration

Fees	<b>3,585,070</b>	<b>3,246,736</b>
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### 39. Operating lease

#### Operating lease - Lease expenses (as Lessee)

Due within one year	3,036,649	5,833,744
Due in second to fifth year	931,691	2,631,079
	<b>3,968,340</b>	<b>8,464,823</b>

Operating lease payments comprise lease rentals payable by the municipality for the office property and equipment. Leases are negotiated for 3 years for the rental of office equipment and photocopiers with contingent rentals payable. Lease rentals for office property escalates at average 8.5% whilst rentals on office equipment does not escalate on an annual basis. Lease rentals for office property have been straight-lined.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>40. Cash generated from operations</b>		
Surplus	206,157,945	61,080,057
<b>Adjustments for:</b>		
Depreciation and amortisation	302,387,317	252,321,047
Gain on sale of assets and liabilities	115,277,539	-
Impairment/Gain of investment	(324,530,301)	97,644,480
Surplus on distribution of non-cash assets to owners	-	12,604,396
Fair value adjustments	-	(102,474,407)
Impairment of assets	3,471,820	11,519,053
Debt impairment	(50,390,243)	(11,177,793)
Movements in provisions	13,676,101	-
Reversal of Impairment	-	(1,049,525)
<b>Changes in working capital:</b>		
Inventories	1,542,905	(5,531,185)
Receivables from exchange transactions	915,189	3,879,168
Consumer debtors	(176,492,039)	(165,014,602)
Other receivables from non-exchange transactions	(1,553,961)	(3,989,776)
Prepayments	(3,909,992)	-
Other financial assets	10,036,578	3,658,669
Payables from exchange transactions	(32,984,298)	103,916,002
VAT	7,049,998	16,754,702
Unspent conditional grants and receipts	26,090,788	(57,537,491)
Consumer deposits	1,078,079	25,955
	<b>97,823,425</b>	<b>216,628,750</b>
<b>41. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure assets	80,363,088	135,912,421
• Community assets	181,151,133	192,895,237
• Land and buildings	17,162,550	112,132,340
• Other assets	11,800,078	23,678,546
	<b>290,476,849</b>	<b>464,618,544</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	7,789,693	1,564,317
• Community Assets	4,900,100	1,100,000
• Other assets	750,000	3,497,200
	<b>13,439,793</b>	<b>6,161,517</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 42. Contingencies

#### **Plaintiff: S J Zulu**

There is a litigation process against the municipality relating to a dispute with Mr SJ Zulu, who is seeking damages of R20million. The outcome of this matter is pending High Court action.

#### **Plaintiff: BTE Construction CC**

BTE Construction issued summons against the municipality relating to a dispute of for breach of contract. There has been no progress on this matter since 2011

#### **Plaintiff: Evnic Data CC**

There is litigation process against the municipality relating to the dispute with Evnic Data CC, who is seeking damages of R23 million for the loss of profit. The allegations are that there was an irregular awarding of tender to another bidder due to unfair evaluation and awarding. Parties to convene pretrial.

#### **Plaintiff: Rusha Peterson**

There is a litigation process against the municipality relating to a dispute where Rusha alleged that the municipality negligent by leaving storm water drainage pipes in a place that was accessible to public and her child was injured from playing with the pipes. The municipality is being sued for R400 000 for damages and legal costs.

#### **Plaintiff: Singatha Africa Joint Venture**

Singatha Africa Joint Venture is seeking damages of R2 333 755 for loss of profit relating to a dispute of breach of contract. It alleges that it was engaged as a Project Manager for housing project but the contract was cancelled. Awaiting trial date.

#### **Plaintiff: ADZ Construction CC**

There is a litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking damages of R 1 245 491 for breach of contract. It alleges that the contract was unlawfully terminated. Litigation to proceed.

#### **Plaintiff: Clover SA (Proprietary) Limited**

Clover SA (Propriet) Limited is suing the municipality for damages of R39 100 to its vehicle caused by the underground water leaks on the road surface. The matter is still under investigations.

#### **Plaintiff: Pragashini Dhewall**

There is a litigation process against the municipality relating to the dispute with Pragashin Dhewall, who is claiming damages for medical expenses of R400 000. He sustained injury after tripping on a metal pipe placed by municipal employees.

#### **Plaintiff: Telkom SA SOC LTD**

There is a litigation process against the municipality relating to a dispute with Telkom SA, who has sent a letter of demand for the damage to telecommunication infrastructure of Telkom at vicinity of Ayliff Street between Patterson and York Street. Should the Telkom be successful the municipality will be liable to pay damages of R165 423.88 and legal fees.

#### **Plaintiff: Yethu Farming CC**

Yethu Farming has sent a letter of demand to the municipality. It is suing the municipality for the breach of contract relating to non payment of the purchase price of R3 800 000 for the sale of farm.

#### **Labour reviews and Bargaining Council**

Miss Nxumalo has sued the municipality for R89 625 and R150 000 legal cost. She alleged that she was unfairly dismissed. Labour court is reviewing the application.

Miss Mjilo has sued the municipality. She alleges that she was unfairly dismissed by the municipality. Arbitration is pending. Estimated legal costs are R150 000

Mr Ngwenya is suing the municipality for an unfair labour practice. Labour court review is pending. Estimated legal costs are R150 000

Mr Mofokeng has sued the municipality R110 000 for an unfair dismissal. Awaiting ruling on leave to appeal. Estimated legal costs are R50 000

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 43. Related parties

#### Relationships

Investment in Associates

Refer to note 7

#### Related party balances

##### Loan accounts - Owing (to) by related parties

Uthukela Water (Pty) Ltd	-	3,003,770
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##### Investment in Associates - Shares of losses

Uthukela Water (Pty) Ltd	(43,322,749)	(14,248,537)
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##### Bulk Water Purchases

Uthukela Water (Pty) Ltd	59,636,402	52,805,805
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#### Related party transactions

### 44. Change in estimate

#### Provision of landfill site

The Provision for rehabilitation costs is raised for the rehabilitation of the refuse disposal site to its original state once the landfill has reached the end of its useful life. The provision for rehabilitation costs is calculated as the present value of the future value of the future obligation, discounted at 7.75%, over a period of 3 years. The discounting rate used to discount the future value of the value of the provision is the return on long-term Treasury Bonds and further adjusted for municipal specific risks.

During the current year, the provision for landfill site rehabilitation costs was restimated at R31 580 000 (2014: R30 800 000) with the remaining life of 3 years. This valuation was done by Jeffarres & Green.

The effect of discounting of the future value of the provision for rehabilitation of the landfill over the remaining useful life is estimated at R616 150.83

#### The movement in the non-current provision is reconciled:

Balance at the beginning of the year	25,860,274	22,923,190
Decrease / Increase in provision	(616,151)	1,473,295
Finance charges recognised	1,956,420	1,463,789
	<b><u>27,200,543</u></b>	<b><u>25,860,274</u></b>

### 45. Prior period errors

#### (i). Unspent conditional grants - Municipal Systems Improvement Grant

In 2012/2013 R1 429 628 was surrendered to National Treasury for poor spending of the grant. The unspent grant was never updated to reduce the liability in 2013/14 financial year. The effect to this is as follows:

Unspent Conditional Grants	44 948 444
	(1 429 628)
	<b><u>43 518 816</u></b>
Accumulated Surplus	2 959 901 258
	1 429 628
	<b><u>2 961 330 886</u></b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 45. Prior period errors (continued)

#### (ii). Property, plant and equipment

In 2013/2014 The Minister approved the transfer of reticulation from Uthukela Water to the shareholders, as part of the transfer Newcastle municipality received reticulation assets. The exercise of verification, revaluations and componentisation of these assets was then performed. The effect of this was as follows:

	DR	CR
<b>Old Valuation</b>		
Property, plant and equipment		171 617 978
Accumulated Depreciation - Water Reticulatin	30 256 071	
Accumulated Surplus	141 361 907	
<b>New valuation had the following effect:</b>		
Property, plant and equipment	1 224 109 751	
Accumulated Surplus		1 148 583 883
Accumulated Depreciation - Water Reticulation		61 075 892
Accumulated Depreciation - Sewer Reticulation		14 449 975
Accumulated Surplus	39 354 137	
Accumulated Depreciation - Water Reticulation		39 354 137

A review of useful lives of assets was performed and opening balances were restated in 2013/2014 financial year, the effect was as follows,

Accumulated Depreciation	R500 316 695
Accumulated Surplus	R500 316 695

#### (iii). Investment in Associate

The 2014/15 draft Annual Financial Statements received from Uthukela Water had a restated balance for the Net Assets. The investment in associates for Newcastle municipality, as the shareholder, had to be recalculated per the restated Net assets. The effect was as follows:

Investment in associates opening balance	R154 822 299
Change due to restated balance	R (22 966 966)
Restated opening balance	<u>R131 855 332</u>

#### (iv) VAT

The provision that was made in 2013/14 financial year for the refunds that were outstanding from SARS had to be reversed, SARS has rejected the refunds. The provision was overstated by R68 070.50. The effect of this is as follows;

VAT - Provision	5 277 059.51
VAT Reconsilliation	5 277 059.51
VAT Reconsiliatiion	68 070.50
VAT - Provision	68 070.50

### 46. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position

Consumer Debtors	-	57,538
Consumer Deposit	-	(57,538)

#### Statement of Financial Performance

Service charges	-	(2,533,865)
Fee Income	-	2,533,864
Public participation	-	(239)

The reclassification of the above balances were due to incorrect mapping of certain votes done in the previous years.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 47. Financial Instruments Disclosure

#### Categories of Financial Instruments

2015

#### Financial Assets

	At armotised Cost	At fair value	Total
Cash and Cash Equivalent	-	340,812,924	340,812,924
Prepayments	-	3,909,992	3,909,992
Receivable from exchange transaction	-	21,827,632	21,827,632
Receivable fro non-exchange transaction	-	10,134,929	10,134,929
Other Financial Assets	-	9,836	9,836
	<hr/>	<hr/>	<hr/>
	-	376,695,313	376,695,313

#### Financial Liabilities

	At armotised cost	At fair value	Total
Financial Liabilities	499,239,477	-	499,239,477
Payables from exchange transaction	-	271,635,848	271,635,848
Consumer deposits	-	11,048,084	11,048,084
	<hr/>	<hr/>	<hr/>
	499,239,477	282,683,932	781,923,409

2014

#### Financial Assets

	At armotised cost	At fair value	Total
Cash and cash equivalent	-	327,907,203	327,907,203
Receivable from exchange transaction	-	24,012,946	24,012,946
Receivable for non-exchange transaction	-	8,580,963	8,580,963
Other financial assets	-	3,015,328	3,015,328
	<hr/>	<hr/>	<hr/>
	-	363,516,440	363,516,440

#### Financial Liabilities

	At armotised cost	At fair value	Total
Financial liabilities	241,982,869	-	241,982,869
Payables from exchange transaction	-	305,248,546	305,248,546
Consumer deposits	-	9,970,005	9,970,005
	<hr/>	<hr/>	<hr/>
	241,982,869	315,218,551	557,201,420

### 48. Risk management

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under Profit committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 48. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

### 49. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 50. Events after the reporting date

There were no events identified after the reporting date.

### 51. Unauthorised expenditure

There were no unauthorised expenditure identified in the current year.

### 52. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	4,236	-
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Fruitless expenditure was incurred due to the meeting that was cancelled on the day of the meeting and the catering company had already prepared the meals.

### 53. Irregular expenditure

Opening balance	68,404,550	79,456,544
Add: Irregular Expenditure - current year	33,314,231	57,203,428
Less: Amounts condoned	-	(65,998,067)
Less: Amounts recoverable (not condoned)	-	(2,257,355)
	<b>101,718,781</b>	<b>68,404,550</b>

#### Analysis of expenditure awaiting write-off per age classification

Current year	33,314,231	54,946,073
Prior years	69,258,058	11,201,123
	<b>102,572,289</b>	<b>66,147,196</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 53. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

	<b>Awards made to spouses or family members of employees in service of the state</b>	
Ellionorah Lushaba	Amehlo Esizwe Development and Estate CC	181,161
Celiwe Charity Ngubeni	Wecebo Trading Enterprise CC	124,345
Makhosazane Victor Mavimbela	Davito Trading Enterprise CC	596,286
Nikiwe Sthandesonke Virginia Mahlangu	Sthandesonke Community Services	10,150,922
Emmanuel Ngubo	Manatty Trading	746,912
Wellington Nkosinathi Kunene	Umzikazi Investment CC	360,315
Sibusiso Cyril Lesley Nyandeni	Vurnisa Construction and Trading CC	3,357,266
Sherilla Maharaj	Newcastle Computech & Stationery	176,043
Santy Lawrence Dube	Asanda Amatimba Constructors CC	99,600
Glayds Sbongile Msibi	Municipal Waste Removal Services	1,976,352
Khomotsho Ramasela Mthimunye	Minolco (Pty) Ltd	925,516
Ambalavanan Moganna Naidu	PDNA Consulting Engineers	1,117,829
Sindiswa Victor Zilwa	Gijima Holding (Pty) Ltd	233,017
Thabi Gideon Mokgatle	Vesta Technical Services (Pty) Ltd	3,271,800
Nomkhita Princess Mona	Tren Tyre (Pty) Ltd	964,630
Mathukana Givion Mokoka	Schindler Lifts (Pty) Ltd	22,006
ZWT Zwane	Dlongwane General Trading CC	331,472
R Singh	RVT Trading (Pty) Ltd	474,781
CL Captain	Kon Ali Trading and Enterprise (Pty) Ltd	44,455
SS Malinga	Owenkosi TT Trading Enterprise (Pty) Ltd	2,800
		<b>25,157,508</b>

#### Awards made to suppliers where municipal employees have interests

Mazibuko Andile Zithulele	Close Home Trading 632 CC	63,503
Ntombela Sipho Gabriel	Mminathoko Trading 186 CC	100,000
Chetty Puroshotaman	Expert Cleaning Services (Pty) Ltd	58,490
Magubane Phumlane Mlandeni	GUBS Communications and Marketing (Pty) Ltd	58,490
Zwane Sibusiso Nkosinathi	Kunqobakwethu Trading (Pty) Ltd	58,490
Masondo Mhlaliseni James	Madusho Security and Construction (Pty) Ltd	58,490
Mahlangu Phumlani	Mhambose Trading Enterprise (Pty) Ltd	389,700
Monareng Sithembile Nonhlanhla	S N B Mevana Trading Enterprise	44,700
		<b>831,863</b>

# Newcastle Municipality

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### 53. Irregular expenditure (continued)

#### Payments made to expired contracts

Minolco	20,544	
Gijima Holding (Pty) Ltd	233,017	
Ithala Properties	250,933	
G4S Solution SA	256,392	
BMS Computing	403,465	
Bytes Xerox SA	610,091	
Kuntwela Ezansi Venture	1,387,498	
	<hr/>	
	<b>3,161,940</b>	

#### Expenditure with variation orders not approved by Accounting Officer

Expenditure with variation orders not authorised by the Accounting Officer	<b>3,144,155</b>	-
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### 54. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	2,607,292	2,521,737
Amount paid - current year	(6,517,284)	(2,521,737)
	<hr/>	
	<b>(3,909,992)</b>	-
	<hr/>	

R3 909 992 is the membership fee for 2015/2016 financial year paid in advance.

#### Material losses

Opening balance	-	2,847,628
Current year movement	-	1,145,257
	<hr/>	
	<b>-</b>	<b>3,992,885</b>

There were no material losses to be written off in the current year.

#### Audit fees

Opening balance	96,901	-
Current year subscription / fee	3,488,169	2,904,696
Amount paid - current year	(3,585,070)	(2,807,795)
	<hr/>	
	<b>-</b>	<b>96,901</b>

#### PAYE and UIF

Current year subscription / fee	50,512,967	48,973,576
Amount paid - current year	(50,512,967)	(48,973,576)
	<hr/>	
	<b>-</b>	<b>-</b>

#### Pension and Medical Aid Deductions

Opening balance	-	4,356,753
Current year subscription / fee	79,799,830	73,087,431
Amount paid - current year	(79,799,830)	(77,444,184)
	<hr/>	
	<b>-</b>	<b>-</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 54. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### VAT

VAT receivable	<u>27,751,286</u>	34,801,284
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All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2015:

June 30, 2015	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr VV Bam	934	34	968
Cllr MM Bhekiswayo	1,393	1,645	3,038
Cllr MV Buhali	182	27,858	28,040
Cllr SSE Buthelezi	1,254	760	2,014
Cllr JK Gabuza	951	3,822	4,773
Cllr NP Kunene	1,337	3,210	4,547
Cllr SB Lukhele	1,705	-	1,705
Cllr ZJ Mbatha	706	3,086	3,792
Cllr SS Mbokazi	2,077	106,204	108,281
Cllr MO Mdlalose	536	665	1,201
Cllr RN Mdluli	2,372	-	2,372
Cllr CN Mkhize	2,636	31,788	34,424
Cllr CN Mkhize	5,822	30,140	35,962
Cllr MS Mlangeni	443	5,355	5,798
Cllr MS Mlangeni	514	7,355	7,869
Cllr MS Mlangeni	1,161	4,998	6,159
Cllr MP Ngobese	1,167	47,287	48,454
Cllr DJZ Nkosi	1,094	2,740	3,834
Cllr NT Ntshangase	354	-	354
Cllr DO Shabalala	1,617	3,820	5,437
Cllr MP Sibilwane	1,270	33,816	35,086
Cllr SJ Zulu	-	114	114
Cllr MS Mlangeni	1,721	12,381	14,102
Cllr Mlangeni	3,026	26,253	29,279
Cllr SJ Zulu	-	193	193
Cllr MM Zwane	1,111	32,797	33,908
Cllr ME Zwane	1,834	4,141	5,975
Cllr ME Zwane	963	4,699	5,662
	<u>38,180</u>	<u>395,161</u>	<u>433,341</u>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

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### 54. Additional disclosure in terms of Municipal Finance Management Act (continued)

June 30, 2014	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr MV Buhali	662	33,876	34,538
Cllr ZJ Mbatha	933	3,977	4,910
Cllr C Mkhize	67	2,935	3,002
Cllr CN Mkhize	4,167	30,608	34,775
Cllr CN Mkhize	7,255	31,165	38,420
Cllr MS Mlangeni	594	6,470	7,064
Cllr MS Mlangeni	993	9,749	10,742
Cllr MP Ngobese	1,866	46,469	48,335
Cllr DJZ Nkosi	1,160	3,998	5,158
Cllr EM Nyembe	277	1,209	1,486
Cllr DO Shabalala	1,848	6,872	8,720
Cllr DE Tshabalala	492	2,401	2,893
Cllr MO Mdlalose	616	2,636	3,252
Cllr MM Zwane	1,452	25,728	27,180
Cllr ME Zwane	1,933	3,853	5,786
Cllr ME Zwane	1,534	6,530	8,064
Cllr MS Mlangeni	1,219	2,555	3,774
Cllr MF Zikhali	844	930	1,774
Cllr SJ Zulu	-	114	114
Cllr SJ Zulu	689	2,978	3,667
Cllr NP Kunene	-	1,866	1,866
Cllr FP Gama	320	1,594	1,914
Cllr NP Kunene	2,046	3,283	5,329
Cllr MS Mlangeni	5,602	50,666	56,268
	<b>36,569</b>	<b>282,462</b>	<b>319,031</b>

### 55. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviation from Municipal Supply Chain Management Regulations amounted R18 059 420 (2014:R 8 411 376) which are made up as follows:

#### Deviations

Section 16	183,184	702,108
Section 17	219,508	1,246,626
Section 36	17,656,728	6,462,642
	<b>18,059,420</b>	<b>8,411,376</b>

# Newcastle Municipality

Annual Financial Statements for the year ended June 30, 2015

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### 56. Water distribution losses

Input volume (KL)	32 433 476	31 813 236
Water losses (KL)	14 147 834	10 705 638
Water losses (%)	43.6%	33.6%
Bulk tariff (R/KL)	2.49	2.46
Water losses in Rands	32 316 096	26 335 869

### 57. Electricity distribution losses

Purchases (KWH)	716 886 587	714 428 173
Less:		
Sales (KWH)	(672 513 725)	(668 937 270)
Loss of units	44 372 862	45 490 903
% Loss	6.19%	6%
Estimated cost per unit - Cents	48	45
Estimated cost of loss - Rands	21 466 457	20 257 501

Electricity distribution losses comprised of the following:

#### Administrative losses

Administrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. Administrative losses are minimal as the municipality ensures that the cut-offs are effected on all unpaid accounts.

#### Technical Losses

Technical losses within the municipality are made up of standard line losses, unmetered own consumption, free basic electricity, street lightning and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600KWh per annum which equates to approximately 8% (3 600 000kWh) of electricity losses.

#### Non-technical losses

Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.

### 58. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

GRAP 100 Non-current assets held for sale and Discontinued Operations was revised in February 2013. The revised GRAP 100 Discontinued Operations is applicable from 1 April 2014. Revised GRAP 100, withdrew the measurement, presentation and disclosure requirements related to non-current assets held for sale.

The comparative closing balances have been appropriately restated. The effect of this change in accounting policy is as follows:

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	2015	2014
Increase in property, plant and equipment	-	964,452
Increase in Investment Property	-	8,039,000
Increase in Accumulated Depreciation	-	(257,964)
Decrease in non-current assets held for sale	-	(8,745,488)
	-	-